

VZCZCXRO5772
PP RUEHRG
DE RUEHSO #0242/01 0851534
ZNR UUUUU ZZH
P 261534Z MAR 07
FM AMCONSUL SAO PAULO
TO RUEHC/SECSTATE WASHDC PRIORITY 6644
INFO RUEHBR/AMEMBASSY BRASILIA 7768
RUEHBS/USEU BRUSSELS
RUEHGV/USMISSION GENEVA 0186
RUEHRI/AMCONSUL RIO DE JANEIRO 7928
RUEHRG/AMCONSUL RECIFE 3472
RUEHRC/USDA FAS WASHDC 0671
RUCPDO/USDOC WASHDC 2752
RUEHFR/AMEMBASSY PARIS 0239

UNCLAS SECTION 01 OF 04 SAO PAULO 000242

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DEPT FOR EEB/TPP/MTA/MST FOR AARON SCHEIBE
DEPT PASS USTR FOR SUE CRONIN
USDOC FOR 4332/ITA/MAC/WH/OLAC/ ADRISCOLL/MCAMPOS
USDOC FOR 3134/ITA/USCS/OIO/WH/RD/DRAMBO
USDA FOR DUS TERPSTRA, RIEMENSCHNEIDER AND CALEXANDER
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E.O. 12958: N/A

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SUBJECT: BRAZIL: USTR SCHWAB MEETINGS WITH BRAZILIAN INDUSTRY
REPRESENTATIVES

¶1. (SBU) Summary: USTR Ambassador Susan Schwab pointed out recently to leading Brazilian industrialists and agriculture sector representatives in Sao Paulo meetings the significance to Brazilian interests of the current Doha Round and affirmed that non-agricultural market access (NAMA) is key to successful conclusion of the trade negotiations - a message that seemed to resonate with her hosts. In a March 9 session with manufacturers, hosted by the Federation of Industries of the State of Sao Paulo (FIESP), she stressed that the USG is committed to an "ambitious outcome" for Doha. Brazilian industry leaders responded that the GOB is open to negotiations. On the non-agricultural market access (NAMA) Swiss formula coefficient, the GOB does not support the USG proposal of a 15 percent coefficient for developing countries. However, they did add that Brazil would be open to engaging in sectoral negotiations and would begin putting together a list of sectors where such talks might prove fruitful. Agricultural issues cropped up at the meeting, with Brazilian business leaders expressing concern about subsidies contained in the current Farm Bill and the ethanol surcharge. The imminent expiration of the President's Trade Promotion Authority (TPA) was also a concern.

¶2. (SBU) On March 10, Ambassador Schwab met with FIESP officials and representatives of some of the most powerful Brazilian agribusiness industries, again at FIESP headquarters. Although the discussion centered mainly on the Doha negotiations, ethanol occupied about one third of the exchange, in the wake of the March 9 signature of a U.S. - Brazil MOU on biofuels. The Brazilians also raised bilateral agricultural issues regarding beef, orange juice and chicken. Ambassador Schwab delivered a strong message on the need for market access for agricultural products, emphasizing that if significant "new trade" is not created, or if Brazil is too ambitious on domestic support, there will be no Doha agreement. The Brazilians said that they need more market access from the EU, are wary of the EU retaining Uruguay Round safeguards and the possibility of restrictive safeguards for developing countries in Doha, and are very concerned that their government is not moving fast enough to counter trade restrictive proposals of the G-33.

¶3. (U) Key Brazilian participants included Paulo Skaf, President of FIESP; Roberto Gianetti da Fonseca, FIESP's General Director for International Affairs and Foreign Trade; Roberto Rodrigues, a large scale sugar cane producer, former GOB Minister of Agriculture and President of FIESP's Council on Agriculture; Rubens Barbosa,

President of FIESP's Council on Foreign Trade and former Brazilian ambassador to the U.S.; Marcos Jank, President of the Brazilian Institute for International Trade Negotiations (ICONE) and former Special Counselor to the Brazilian Minister of Development; and Jose Cutrale, the largest producer of frozen concentrated orange juice (FCOJ) in Brazil who also holds a significant interest in Florida orange juice production. End Summary.

Meeting on Non-Agricultural Market Access (NAMA)

14. (SBU) FIESP is the leading regional manufacturing sector organization in Brazil, and is comprised of 132 sectoral trade associations representing over 40% of the country's industrial GDP and more than 140,000 companies. (FIESP has recently opened a Washington field office, which is co-located with the Brazil Information Center.)

15. (SBU) Ambassador Schwab told the group of 13 Brazilian business leaders that her three visits to Brazil since July 2006 underscored the importance of Brazil's role in the Doha Rounds. Terming the current Doha Round a critical opportunity for all countries to address the future of global trade flows and relationships, Ambassador Schwab said the USG is committed to an "ambitious" outcome. She told attendees only a multilateral outcome - not a bi-lateral or regional deal - will address Brazil's needs, and the GOB may have to choose between Brazilian industry and the interests of the other developing countries at some point in the negotiations.

Ambassador Schwab said the GOB has a "fundamental impact on influencing other countries such as India," and emphasized that a failed Doha Round would impact Brazil as hard as any country. She noted that there is a building sense of momentum and urgency to the

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talks and called for a "robust and balanced outcome."

16. (SBU) Skaf agreed with Ambassador Schwab on the importance of the Doha negotiations, but said that, in the opinion of the GOB and Brazilian industry, balance is the key word in the negotiations. According to him, in the NAMA talks FIESP accepts the Swiss Formula, but feels the coefficient determination needs more objective discussion.

NAMA and the Coefficient

17. (SBU) Skaf pointed to FIESP's designation of 2007 as the year for dialogue with the U.S., and called for clarity in the negotiations over the exception list, the Swiss coefficient and agricultural subsidies. He emphasized Brazil's infrastructure problems which, coupled with an unfavorable exchange rate, have hurt the country's competitiveness. Despite this, he felt the GOB is willing to reach a bearable coefficient cost and negotiate sector by sector. Ambassador Schwab encouraged the private sector to remind governments that trade agreements generate economic growth. Her message was that the GOB should be pushing NAMA and not let other countries hide behind agricultural issues.

18. (SBU) Ambassador Schwab reminded the group that, of all countries, Brazil has the greatest potential to lose should Doha fail. She cautioned that Brazil is not going to be able to play a leadership role if it is "hiding behind the G-20" and encouraged each developing country to identify what it plans to shelter, in terms of tariff lines, without obsessing over the coefficient. Skaf said there is no support in the GOB for a reduction to 15 per cent, which he termed "impossible." He also questioned the figures USTR used to demonstrate the effect of the USG proposed coefficient on maximum tariff rates, referring to it as "alchemy."

19. (SBU) Skaf noted that his association (FIESP) is as ambitious as USTR, but within "realistic limits." He acknowledged that his organization is prepared to engage in sectoral talks as a complement to Swiss formula negotiations. He also said that, to move this effort forward, FIESP has been making contact with other similar

associations such as the National Association of Manufacturers (NAM) in the U.S. (FIESP will host a visit from NAM executives the second week in April.)

Agricultural Issues Unavoidable

¶10. (SBU) Despite the meeting's NAMA focus, Skaf noted that agriculture was inextricable from the other topics in the Doha discussions and thought the GOB position might be flexible, but said he didn't see the same clarity in the USG position. Ambassador Schwab countered that in 2005, the USG took the first step by putting forward a bill to "ambitiously cut" agricultural subsidies. That approach failed when the EU and G-20 responded with a proposal containing little real agricultural market access. She said agriculture is clearly a fundamental part of the rounds and eliminating agricultural trade barriers is the single most important thing the world could do to contribute to development.

¶11. (SBU) Addressing the Farm Bill, Ambassador Schwab said the legislation proposed in February is not part of the USG Doha Round offer. As the trade round was not completed last year, the bill was not written to conform to a Doha agreement. She declared that the USG could not make commitments to cap farm support independent of trade discussions. She assured the group that if there is a breakthrough this spring, it will be a year before it is in force and the Farm Bill could then be amended to reflect the negotiated agreement if needed.

Intellectual Property Rights (IPR)

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¶12. (SBU) Skaf noted his concern that USTR continued to list Brazil on its Special 301 "Priority Watch List." Ambassador Schwab commended GOB anti-piracy efforts, but said that the position of the GOB on IPR in international fora, such as WIPO and WHO, has been detrimental to worldwide anti-piracy efforts and did not effectively represent the intellectual property rights (IPR) of Brazilian industry.

Meeting with Agribusiness Leaders

¶13. (SBU) In contrast to the meeting on NAMA the day before, much of the March 10 meeting was characterized by concise and well-rehearsed presentations and statements by participants to Ambassador Schwab. Roberto Rodrigues, a large scale sugar cane producer, former GOB Minister of Agriculture and President of FIESP's Council on Agriculture, expanded on the importance of agriculture to Brazil by outlining its 33 percent contribution to GDP and 30 percent share of total exports in 2006. He said that some 13 million hectares of grazing land alone could be converted within a short time period to produce other crops should greater market access be opened under Doha.

¶14. (SBU) Marcos Jank, President of the Brazilian Institute for International Trade Negotiations (ICONE), observed that Brazil and the U.S. are in general agreement on most Doha issues, including market access. Nevertheless, he added, Brazil needs even more access from the European Union (EU) and Brazilian agricultural interests are concerned about blue box disciplines as well as restrictive safeguards and the composition of the eventual list of sensitive products. Jank stated that Brazil's priorities include a 75 percent cut of high tariffs; maximization of tariff rate quotas (TRQ) expansion; elimination of the Uruguay Round Special Agricultural Safeguard (used primarily by developed countries), fewer special products for developing countries (the G-33 proposal of 20 percent of tariff lines would be unacceptable) and limits on special safeguards for developing countries (no higher than Uruguay Round levels). On particular priorities beyond the soybean complex

initiative, Jank said Brazil remains interested in frozen concentrated orange juice (FCOJ) and sugar.

¶15. (SBU) Jank said that barring serious cuts in the amber box, overall subsidies would have to be capped, hence Brazil's concern with the Bush Administration's farm bill proposal that would create revenue based counter-cyclical payments and move payments from the amber box to the blue box. He concluded that the U.S. and Brazil have common ground on market access but not domestic support.

¶16. (SBU) Ambassador Schwab agreed that Brazil and the U.S. are on the same side on 90 percent of agriculture issues, but firmly stated that "new market access" (effective and serious cuts in applied rates and ceilings) is critical for the U.S. Only a balanced Doha agreement with ample market access and reasonable subsidy cuts will have a chance to clear the U.S. Congress. Ambassador Schwab cautioned that if significant "new trade" is not created by the negotiations, or if Brazil is too ambitious on domestic support, there will be no Doha agreement on agriculture. She added that serious access on NAMA is also needed - lack of ambition on NAMA would mean no cuts in domestic support for agriculture.

Ethanol - A Hot Topic

¶17. (SBU) In the wake of the March 9 signing of a U.S.-Brazil MOU on ethanol cooperation, discussions on U.S. ethanol tariffs and taxes dominated much of the meeting. Ambassador Schwab clarified that while the 2.5 percent U.S. tariff on ethanol imports is part of the Doha negotiations, the 54 cent U.S. surcharge on ethanol imports is not. She told the group that ethanol is a major issue for U.S. corn producers.

¶18. (SBU) Robertto Gianetti da Fonseca (FIESP's Director for International Affairs and Foreign Trade) said his organization recognizes the position of the U.S. Renewable Fuels Association, and

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understands that the 54 cent surcharge will be in place while the U.S. ethanol industry develops. He added that Brazil will have a limited supply available for export in the near term due to growing domestic demand. He floated a proposal, recently developed by the Brazilians, which suggests the U.S. extend its surcharge for five years with an incremental phase out after that time in order to assure potential investors. Sergio Amaral, Coordinator of FIESP's Business Councils, observed that the ethanol MOU created a paradox because Brazil would now promote ethanol production in countries that have duty free access to the U.S. market, while Brazil does not.

Other Bi-Lateral Issues

¶19. (SBU) Jose Cutrale, the largest producer of FCOJ in Brazil, noted that U.S. tariffs for his product are 33 percent higher than those imposed by the EU and requested Ambassador Schwab consider promoting a reduction in U.S. FCOJ tariffs. Jank (ICONE) said Brazil is interested in pursuing a line of discussion on chicken exports as Brazilian exporters may lose market share with the entry of Bulgaria and Romania into the EU. A beef industry representative said U.S. based importers are interested in Brazilian fresh and frozen beef and that Brazil is working with the Organization of International Epizootics to regain its disease free status for foot and mouth disease (FMD) by May 2007.

¶20. (SBU) Comment: The meetings, designed to gauge the position of the Brazilian private sector as a prelude to further Doha negotiations, were open and the discourse frank on both sides. FIESP and its members have some influence on the inner circles of the GOB and the meetings provided valuable insight into the positions of Brazilian private industry. End Comment.

¶21. (U) Embassy Brasilia contributed to this cable, which was cleared by USTR and Embassy Brasilia prior to transmission.

